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LESSONS LEARNED:
USAID REGIONAL DEVELOPMENT PROGRAMS
IN
CENTRAL AMERICA AND SOUTHERN AFRICA

Report Submitted
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POSSIBLE APPLICATIONS IN SOUTHERN AFRICA

The United States Government has launched a major regional assistance program, the Initiative for Southern Africa (ISA). It is intended to build upon the success of the Southern African Regional Program (SARP) in promoting the transition to multi-racial societies in South Africa and Namibia. SARP focused primarily on reducing the region's dependence on South Africa and improving food security, and was closely tied to the Southern African Development Coordination Conference -- a public sector organization.

The ISA's long-term focus will be continued economic reform, expanded economic and political cooperation among all of the Southern African states and the reintegration of South Africa's tremendous industrial, financial and technical resources into the region in a mutually beneficial manner. The ISA approach will be regional vs. bilateral, its programs African-led, African-driven. The effort will be led by the Regional Center for Southern Africa out of Gaborone, Botswana and executed in close collaboration with the USAID bilateral missions and the other donors.

The purpose of this brief study was to look at thirty years of US assistance to regional cooperation and integration in Central America for some possible lessons which may be applicable to the ISA. The author was asked to prepare the study based on twenty-five years of working on Central America in bilateral missions, in the regional mission, ROCAP, and in various capacities in AID/W.

The single most important factor influencing U.S aid to Central America was it's close physical proximity to the United States. Central America's economic and political stability is viewed as being in the direct U.S. national interest of the United States and has been for most of this century.

U.S. aid, both regional and bilateral, has always been seen as long-term and, for much of the past thirty years, USAID and the Central Americans have shared a common vision. There have been estrangements, of course, but even during these periods, AID as an agency, enjoyed a certain cache both among the people and their leaders. We had been there for them for so long.

ROCAP, in a very real way, was a response to the Central Americans and their drive, both rational and idealistic, for a closer union. The personal and institutional ties forged over the years between ROCAP staff and Central American regionalists were real and of substance. Of course, they looked to ROCAP as a benefactor but they also saw it as a friend who helped them kept the faith. This constancy of purpose and presence was essential. There is an irony here. When things were at their worst in the 1980's, when many AID people in the field and Washington had written off the Central American Common Market and regionalism, a whole series of AID Administrators and AA/LACs managed to come up with the funds for ROCAP. ROCAP had become a symbol of our commitment, closing it would have signaled surrender. These are the major lessons.

Some of the possible operational applications for Southern Africa:

-- A long-term strategy for the ISA will take time to evolve if it is really to be Southern African-driven. Use the two-year Start-up Framework to find out where they are going, concentrate on learning and go slow on developing a formal portfolio.

-- Well defined and understood criteria of what is "regional", and what is not, is of critical importance. If this is not done up-front, you'll end up fighting the same battle over and over, undermine collegiality, waste time and embarrass the Agency and the USG.

-- Avoid any serious institution building unless you are prepared to stay the course. And, do not begin until you have resolved the long-term sustainability issue.

-- The Agency's perilous budgetary, manpower and, even organizational situation argues for doing a few things well. Try wherever possible to program and staff both regionally and bilaterally to get the maximum synergy from the totality of the AID presence.

-- Finally, make a concerted effort to bring top Southern African talent into the field missions.

LESSONS LEARNED: USAID REGIONAL DEVELOPMENT PROGRAMS IN CENTRAL AMERICA AND SOUTHERN AFRICA

I. USAID and Central America

A. The Central American Integration Movement

Economic integration has been a recurrent theme of Central American statesmen and intelligencia since the Spanish conquest and political union was an explicit objective of the leaders of the struggle for independence early in the 18th century. A brief political union among the northern states did occur shortly after the revolution but was soon dissolved as local leaders struggled to consolidate their power at the national level. Spanish colonial rule was soon replaced by a series of military strong men. Economic power, derived chiefly from agriculture, was increasingly consolidated by a privileged few with strong links to foreign fruit companies and international coffee and sugar cartels. Democracy was honored in the breach, while pluralism became the periodic exchange of power among those who owned the wealth or coup d'etats among the military as they vied for the favors of wealthy.

The end of World War II brought a series of "re-revolutions" as reformers tried to break the hold of the military and the economic oligarchy. A younger, more socially responsible, economically sophisticated, leadership began to emerge particularly in the private sector. The post-war period also brought the world-wide dissolution of the colonial system, the establishment of World Bank and IMF, and the launching of the European Integration movement. The new Central American leaders once again returned to the dream of a united region. The late 1950s saw a frenzy of academic studies, private sector meetings and governmental summits throughout the region. By the time President John F. Kennedy took office the Central Americans were busily putting together a Common Market of Central America (CACM), composed of the nations of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica.

The CACM was designed to develop a regional industrial base behind a protective trade barriers. These "integration industries" had a two-fold purpose, reducing the region's dependency on a narrow base of agriculture exports to earn hard currency and, over time, creating a broader internal CA economy. The tariff walls were intended to be temporary and gradually dismantled as the local industries became more competitive and a growing middle class provided an expanding CA internal market. The CACM very much mirrored the import-substitution model in vogue at the time both in the developing world and among development economists in the industrialized world.

After a brief decade of rapid growth the CACM experiment begun to run out of steam. The infant "integration industries" turned out to be inefficient and non-competitive in world markets. The basic and intermediate materials they needed to produce were not available locally and had to be brought in over the high tariff wall. Their products in turn became increasingly more expensive than those available abroad. The local market proved smaller and grew more slowly than expected and returns on investment soon made most of the enterprises unprofitable. Many of the largest ended up in the hands of the state banks and/or were kept open by a combination of government subsidies and prolonged tariff and non-tariff strictures on imports. The difficult macro-economic climate of the 1970s fed the debt crisis of the 1980s, which, followed by the enormous economic and social disruptions of war and insurgency, spelled the failure of the CACM as originally conceived.

The 1980s were times of severe political crisis for much of the region -- vicious civil wars in both El Salvador and Nicaragua, stepped up guerrilla warfare and military repression in Guatemala, fear and intimidation as the <u>contra</u> build-up proceeded in Honduras. The economic decline triggered by the oil crisis and world recessions deepened throughout the region, even in peaceful and democratic Costa Rica. The nations of the region increasingly were unable to service neither their external debts nor clear their internal trade balances. Indeed, Costa Rica already disillusioned with the CACM, increasingly tried to distance itself from the rest of the region and closed its borders to trade on several occasions. Drowning men and nations don't normally swim together.

But the CACM experience was not a total failure when viewed from a longer perspective. Production and marketing capacity was modernized and diversified, a middle-class took hold and, in many ways, more modern nation states began to emerge. The CACM experience left a strong base of modern business and financial institutions, a qualified workforce and a well developed internal marketing system -- all great advantages as the region now works to create a new and outward looking integration framework.

By the mid-1980s the CACM was completely moribund and the Central American Regional Institutions (CARIs), even those without direct ties to the CACM, were desperately trying to stay afloat. All of the countries fell further and further behind on their contributions to the core budgets of these institutions setting in motion a downward cycling series of budget cuts, reduced staff (particularly at the "worker bee" level), reduced services to the client states, which in turn "justified" further cuts. As might be expected, government ministers at the national level region trying to save their own ministries from cuts, made only feeble or no representations on behalf of the CARI's even though they were the "owners" of those institutions. Ironically these same individuals often used their positions on the Boards of Directors of the CARIs to protect their nationals on the staff from dismissal, further constraining the ability of CARI managers to retrench.

The Central American Bank for Economic Integration perhaps was the most dramatic example of how bad things became. Like most of its member countries, it had borrowed "short" to relend long in the early in Seventies. The oil crisis and the world-wide recession brought a severe decline in demand for the region's traditional exports and arrearages skyrocketed. The "owners" of the Bank, the Central Banks of the five Republics, generously rescheduled themselves and reserves evaporated. The Sandinistas effectively defaulted on Nicaragua's debt, Costa Rica declared a unilateral moratorium on its outstanding loans and the rest of the countries fell further and further in arrears. The USG with an exposure of well over $500 million in loans and guaranties had real reason to fear the Bank's collapse.

By 1984 it became increasingly evident that the Sandinista regime and the insurgency in Salvador could not be contained and defeated by military means alone. A long-term restructuring of the economic and social structure of each country had to become an overt objective of the US. The response was the so-called Kissinger Plan or Reagan Initiative, a massive effort to stabilize, then restructure the CA economies, strengthen democracy and meet the basic human needs of the peoples of the region. It was followed by a major trade and investment package, the Caribbean Basin Initiative which removed most U.S. tariffs on goods from the region and actively promoted U.S. investment into the region. Together, the Kissinger Plan and CBI, became the basic assistance strategy for all US and USAID involvement in the region -- <u>a unified US Strategy for Central America and the Caribbean has been in place for the past ten years.</u>

B. ROCAP Origins and History

The United States was actively establishing or encouraging the formation of regional economic and security entities throughout much of the 1950s. Conceived as a response to the expansion of Soviet and Chinese expansionism these arrangements were intended to defuse leftist-led insurgencies, and fill the void caused by the collapse of colonialism. Regional integration was <u>very</u> much in vogue. Washington's growing concern for Central American was fueled by Guatemala's brief flirtation with socialism during the Arbenz/Arevello period (squashed with US support) and the socialist/populist revolution in Costa Rica could be the harbinger of worse things to come. Thus, when late in the Eisenhower Administration it became evident that the Central Americans were about to renew their quest for integration, planning for a positive U.S, response was accelerated.

Both bilateral and regional US aid to the region at this time was already well in place. Bilateral USOMs were in place while a number of "servicios", jointly funded and staffed by US and local government personnel, were carrying programs in health, road construction, agriculture research and extension, labor and other areas. In many instances these unusual entities became the forbearers of today's government ministries. At the regional level both USG and private money was supporting a growing number of regional institutions including; a graduate school for agriculture at Turrialba, Costa Rica --now a CIGAR affiliate, a United Fruit financed post-secondary agriculture school at Zamorana, Honduras and the world-recognized Central American Nutrition Institute (INCAP) in Guatemala.

The immediate impetus for establishment of ROCAP was the Central American's private sector decision to establish CABEI and the CA governments' decision to establish the Organization for the Economic Development of Central America (ODECA) to oversee the formation of the CACM. The planning for ROCAP dovetailed nicely with President Kennedy's decision to set up the Alliance for Progress. In October 1962 a US-ODECA multilateral agreement was signed by the five CA presidents naming ROCAP as the principle USG point of liaison and channel of assistance to the integration movement and its institutions. That agreement is still in place today.

ROCAP, over time, was given program and funding responsibility for U.S. aid to the existing regional institutions and to wide array of new CARIs formed to support the CACM. Some of the new ones, besides CABEI, included: the Central American Business Institute (INCAE) established with help from the Harvard Business School; ICAITI, an Institute for Industrial Technology Research and Standards; ICAP, the Central American Public Administration Institute; and SIECA, the Secretariat to ODECA charged with developing the CACM trade and investment treaties and custom regime.

ROCAP, directly or via CABEI, also managed a wide-ranging portfolio which included regional integration highways, port improvements, regional grain storage, housing loans and guaranties, malaria eradication, rural mobile health, regional elementary textbooks, development of a common tariff structure, construction of custom houses and a large region-wide participant training program. A number of smaller, ad hoc, targets of opportunity, designed to support integration and regionalism were funded throughout the 1960-70 period.

The economic collapse of the 1970s followed by the war years of the 1980s set Central American development back 10 to 20 years. The dream of integration became a nightmare and regional cooperation fell under a cloud of despair and recrimination. It was the prevailing opinion in the USG, among the USAIDs and, unfortunately, among many of the leaders of the region that the CACM was dead (many wished it formally interred) and that ergo that many of the regional institutions also should be put out of their misery. Central American political leaders, however, were loath to pull the plug and an "old boy " network of regionalists fought a subtle guerrilla warfare to at least keep up the pretenses. They were joined by the regional bureaucrats, many of whom were "refugees" -- Nicaraguans who could not go home, Guatemalan, Salvadorans and Panamians who dared not -- who used their extensive contacts throughout the region to save their jobs and their necks.

Fortunately ROCAP continued to receive a modest annual budget throughout this period, enough to keep a trickle of funds going to at least some of the CARIs. ROCAP's thankless task of keeping the CARIs afloat was made more complicated by AID/Ws policies against DA financed budget support. This meant that bulk of the funds ROCAP did receive had to be channeled via "projects" with the regional entities. While the ROCAP staff was as artful and accommodating as possible in designing these projects distortions were inevtiable. This "tyranny of projectizing" was even more severe with the other donors who consistently insisted on "no overhead, no institutional maintenance, no load". As this distorting process became more and more evident and as the regional institutions became more and more estranged from their "owners" the bilateral USAID and Embassies with a few exceptions lost no opportunity to disparage the institutions and by inference the ROCAP program.

The Kissinger Plan provided ROCAP and the regionalists a much needed financial and psychological lift. Rather than writing-off "regionalism", it identified <u>national problems as common problems requiring long-term collective action</u>. It also generated a broad base of Congressional interest and support for Central America as a region. Annual appropriations for the region soon became so large that the ROCAP budget became almost de minimus and thus less susceptible to attack.[1]

C. How ROCAP Worked

Strategy and Program Development

As noted earlier, ROCAP's major focus during most of its existence was the support of the Central American integration movement per se, and the promotion of regionalism and regional cooperation. ROCAP had a stand-alone strategy and program.

In the late 1960s, at Washington's direction, the six CA missions (Panama included) prepared a common Regional Assistance Strategy Paper and Annual Budget Submission. These documents discussed the overall status of development at the regional and country level and spelled out what each bilateral mission and ROCAP would do individually and in unison. These documents were then reviewed by AA/LAC, the LAC/W Regional Office Director and the Mission Directors sitting as a joint review board. As the economic crisis of the Seventies deepened this practice was abandoned though the ROCAP and USAID strategy and program papers continued to be shared and commented upon. Frequent management level meetings continued to be held in the region while ROCAPs peripatetic technical staff kept up contacts at the working level.

The regional strategy concept was revived by the Kissinger Plan (Reagan Initiative). The plan itself was a product of a distinguished group of US and Central American public and private leaders -- working under U.S. and C.A. co-chairs. The Commissioners met periodically to review progress, recommend modifications and to keep the pressure on Congress to fully fund the Initiative. All USG economic aid to the region was tracked against the objectives of the Initiative with the LAC/CEN and its State counterpart keeping tabs on who was doing what -- or tried to. Internal to AID there was no argument -- Missions and ROCAP alike programmed against one strategy. While individual CDSSs continued to be prepared they were rigorously reviewed both in the field and AID/W for conformity with the Initiative. Reporting to Congress on progress was organized by objectives set

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[1] This is not to say that ROCAP's continued existence was not questioned within AID. In 1990 the LAC Bureau, scrambling to find additional USDH slots for the burgeoning bilateral programs, came within hours of abolishing ROCAP. Only a last minute plea by the ROCAP Director (a political appointee with close ties to the White House) and the personal intervention of the President of Guatemala with President Bush, saved ROCAP.

forth in the Commission's report with antidotal country information. Congressional Budget Submissions were covered with a substantial regional summary followed by the USAID, ROCAP and C.A. Regional narratives and budgets.

Project Development

ROCAP and the bilateral USAIDs were responsible for developing their own project portfolio. The Annual Budget Submissions included a PID-like description of what each Mission was planning. The ABSs were shared and since LAC/W reviews for the region were scheduled as a bloc, there was ample time for inter-mission comment. Moreover, the C.A. Mission Directors or Deputies met every six months with AA/LAC and others present to coordinate. There was no lack of communication nor of controversy. ROCAP worked very carefully to ensure full consultation during preparation of project papers with both USAID PDO and Technical offices being consulted during preparation and review of draft PPs. By and large there was substantial harmony in this process. ROCAP projects were often designed to complement that being done bilaterally in the sense of providing an additional level of expertise to the region, additional training, inputs from the regional institutions, etc. Activities in support of a regional institution or completely outside the bilateral portfolio, were largely ignored by USAID staff and management.

Project Authorization

ROCAP Directors enjoyed the same authorizing authorities and limits as their peers. Prudence, however, sometimes dictated obtaining at least the initial authorization from AA/LAC particularly where collateral USAID actions and financing was required. This was critically important when changes in mission management were in the offing or there were serious unresolved difference with one or more of the USAIDs.

Obligation

ROCAP had its own treaty right to do business anywhere in the region -- a right which was carefully protected and judiciously used. Obligations were made directly with the recipients. Obviously, if the USAID in that country was providing financing, ESF-generated local currency was often a part of funding plan, the USAID would be involved in our signings wherever possible or appropriate. The resident U.S. Ambassador often also was invited to "sign" project agreements or participate in a signing ceremony -- at least the nice ones.

Implementation

ROCAP did not share project implementation responsibilities with the USAIDs though they were kept current on progress and problems. There was never any question as to which organization was in-charge and accountable.

Monitoring, Evaluation and Impact Reporting

If the USAID was involved directly (as co-financier) or indirectly (working in a closely aligned area) they would be asked to participate in evaluations. Impact reporting was reserved to ROCAP. The USAIDs simply did not have the time, interest or, unfortunately, the objectivity to make meaningful input. We did, however, include the counterpart regional institution and, wherever possible, their clients at the national level. An exception to this practice was the RENARM project which had a specific project component to plan and fund ROCAP and bilateral E/NR activities. Annual evaluation plans were jointly planned and executed through the RENARM coordinating mechanism.

Financial Management and Accounting

ROCAP's shared the services and OE costs of the Office of the Controller USAID/Guatemala. ROCAP and USAID Directors prepared joint EERs. Financial control reviews and vulnerability assessments of recipients (as distinct from audits) were done at the behest of ROCAP. The Regional Contracts Officer and Commodity Officer were under the administrative direction of ROCAP. There were few, very few, complaints from the client USAIDs.

Regional Staff Travel

A policy of country clearance for individual visits was observed in some countries while blanket clearance was in place in others. Advance advise of travel was standing procedure. The ease of access afforded ROCAP staff was a reliable barometer of ROCAP - USAID trust and sometimes, of Embassy - USAID relations.

II. Regional Contrasts: ROCAP and SARP

The Central America of 1960 when ROCAP was conceived and the Central America of today are really quite different places. Similarly, Southern Africa today offers a much different array of problems and opportunities than were operational when SARP came into existence in the early 1980s. On a different level, however, at least in one major respect there is a striking parallel today. Both regions have recently successfully negotiated a passage of great uncertainty and danger, democracy is on the ascendancy and there is a new sense of confidence among the leadership that they have taken charge of their destiny and the region is once again on the move.

The following chart summarizes some key similarities and differences of the two regions and programs.

Comparative Chart of Similarities and Differences

Central America	**Southern Africa**
Regional Profile	
- Costa Rica/Panama have ADC status; rest more or less same level LDC	- Wide disparities in development/viability
- No predominate power inside region	- Predominate economic/ political power in SA
- 5-7 countries, including Panama & Belize	- 10 countries
- Wide collection of regional entities; ODECA only nominal control past 20 years	- One regional entity SADCC in strong role
- Infrastructure * Extensive N-S, E-W road network * Regional ports * Shared electric power * Common customs	- Infrastructure * Extensive road/rail constrution in past decade * National Ports * Good long-term power prospect * No common tariff regime in place
Relative US Role	
- Predominates in all respects -- trade, investment, culture	- One of many actors

ROCAP	SARP	ISA
	US Aid Antecedents	
- Bilateral programs; some regional projects	- ORSA regional program	- SARP and bilateral USAIDs
	Program Rationale	
- Response to CA Initiative - Support economic integration - Promote regionalism	- International containment of SA - Fight apartheid - Cushion impact of sanctions - Regional infrastructure	- Regional cooperation & integration
	Relative USAID Role 1980-90s	
- Largest donor	- One of many donors	- One of many donors
- Lead on economic reforms	- IMF/World Bank/Others in lead on economic reforms	- Others in lead on economic reform
- Congressional earmark for CA region	- Congressional earmark for Southern Africa/SARP	- Annual budgets in decline
	U.S. Strategy	
- 60's, late 70's, 85-95 regional strategy in place	- no comprehensive US regional assistance strategy	- Interim 2-year Start-up Framework

ROCAP	SARP	ISA
	Modus Operandi	
- Regional program & projects	- Regional basket	- Regional program & projects
- Stand-alone regional mission	- Shared implementation USAIDs/ SARP	- Stand-alone regional office
- No CA umbrella counterpart	- Funds passed thru SADCC to countries	- No predominant counterpart
- Direct obligation, implementation, accounting, evaluation	- Bilateral management via USAIDs	- Stakeholder driven
- Extensive use of conferences and CA individuals to network and set program parameters	- Projects largely bilateral in nature	- Close ties to other donors - Heavy use of SA intermediaries
	Staffing	
- Centralized in ROCAP	- Centralized	- Centralized
- Regional support officers (e.g., RLA, RCO locate at ROCAP	- Regional support officers located at REDSO	- RLA and RCO in RCSA
- ROCAP technical specialist shared with bilateral missions (e.g., environment, forestry, nutritionist, regional economist)	- SARP technical specialists supported bilats (e.g., transport economist, telecommunications expert)	- Own cadre of technical personnel under contract
- Heavy use of CA professionals as contractors, FSN PSCs	- Under SARP, largely US contractors	- Heavy reliance SA professional staff

III. Lessons Learned

What is the legacy of ROCAP's 30-plus years of support for Central American integration and regional cooperation?

Working together ROCAP and the Central Americans have put in place a system of regional entities which remain true centers of excellence not only for Central America but for all of Latin America. They will continue to be important players as Central America moves into the 21st Century. Equally important, we successfully fostered and preserved a sense of regionalism and cooperation which has endured the trials and chaos of a decade of economic collapse and war.

Strategic Vision -- The US and Central America shared a common strategic vision for the region. We supported whole heartidly the formation of the CACM and made major inputs of funding, TA and training to make it work for more than a decade. That sense of common purpose was renewed in the mid-1980s.

Constancy of purpose -- AID worked closely with Central Americans of vision and dedication to identify the strategic constraints to the region's development and then made the long-term commitment to building quality institutions to meet that need. With few exceptions we stuck with them through thick and thin. Maintaining a constancy of purpose paid off. If ROCAP had thrown in the towel during the economic crisis of the 1970's and the political chaos of the 80's the new leadership of today simply would not have the instruments (nor the personnel) needed to forge a new regionalism for the next century.

Distinct Portfolio -- ROCAP's portfolio, particularly in the formative years, was distinct and differentiated from the bilateral program. That is not to say that activities were regional to the exclusion of being supportive of the bilateral programs but, with few exceptions, they had a sound regional rationale.

Program and Budget Independence -- While opposition from the Ambassadors and USAID Directors and staff was an irritant throughout ROCAPs existence, ebbing and waning with the size of the AID appropriation and the relative health of the CACM, for the most part ROCAP enjoyed relative program and budget independence. ROCAP was not a "pass-through" to supplement bilateral aid.

Flexible Program Interventions -- ROCAP support for regional cooperation was agile and opportunistic. Although it had to "carry" a number of the CARIs during the later years, we structured the overall portfolio in a loose enough manner that we could respond to "targets of opportunity". Interventions at both the regional and national level, fostered regional cooperation among the Central Americans and/or supported the USAIDs in areas they could not readily "reach" with their own programs/personnel. Some recent examples:

-- Promotion of Non-traditional Agriculture Exports has been a major focus of US aid to the region throughout the past decade. AID's investment of several $100 million was threatened by a pesticide contamination scare which swept the US in 1991. Using existing project resources ROCAP hurriedly pulled together a regional pesticide management education program to help non-traditional agricultural exporters conform to US regulations and to train doctors and nurses in the diagnosis and treatment of chemical intoxification among the region's farmers and farm workers. Use of chemicals has been dramatically reduced with far fewer cases of poisoning. An increasing number of Central American producers have converted to IPM technics -- some now even enjoy USDA/FDA certification as organic producers.

-- In the early 90's ROCAP led the preparation of a comprehensive environment and natural resources strategy for the region and a ROCAP program to complement and support bilateral A/NR programs under that strategy. A ROCAP-USAID review mechanism monitors overall progress while a ministerial level commission appointed by the six CA presidents keeps overall tabs on CA environmental issues.

-- During the first few months of USAID's return to Nicaragua ROCAP used existing portfolio resources to help USAID Nicaragua get a handle on electrical energy and private sector organization issues. In Panama the ROCAP-supported regional umbrella organization of private sector entities, FEDEPRICAP, visited Panama within days of the fall of strongman Manuel Noriega to demonstrate support for private sector and democracy.

-- Throughout the period of political and economic crisis of the 1980s ROCAP support used the regional organizations and its contacts in academia and the private sector to keep the CA dialogue on issues of common concern alive even when formal contacts were forbidden or discouraged.

Adaptability and salesmanship are absolutely critical -- The CACM market failed not so much because it was fundamentally flawed or ill-conceived but because it failed to adapt and refocus in a timely manner. While part of the blame lies with the regional bureaucracy which tried to guild a fading rose, a greater responsibility lies with the political and business leaders who had become vested in continuing its failing instruments and concepts. Similarly, the regional institutions, which were for the most part, conceived by the public sector failed miserably in diversifying their client base, particularly with the emerging new private sector. Instead they relied upon ROCAP and other bilateral and international donors to stay afloat. As long as we kept the life support systems functioning they failed to adapt and redefine themselves. When ROCAP belatedly began pushing them in this direction, the bilateral USAIDs, who could have thrown business their way, continued to hire much higher-priced, and often less qualified, US talent. AID failed to capitalize on a major sunk investment.

Sustainability must be an integral part of the overall regional strategy from the beginning -- When ROCAP finally began a concerted effort to "empower" its regional dependents in the mid-90s it got little support from the "owners" who continued to be cash poor. Again, the USAIDs who could have easily used ESF negotiations to boost national payments, largely refused to do so. AID/W found the concept of using DA to establish endowments for regional institutions virtually unthinkable. Meanwhile, the bilateral USAIDs were setting up major endowments all over Central America using ESF and PL-480 generations.

Clearly, there are instances when the creation of regional institutions and mechanisms is absolutely necessary to a achieve a long-term regional objective. In other instances feasibility and efficiency may dictate taking a regional approach to building one center of excellence for the area, the rationale behind the formation of the Central American Institute for Business Administration (INCAE). The point is, that the need for the regional entity must be critically examined up-front and a concerted effort agreed upon among all parties, regional and bilateral USAID missions, other donors and the regional "owners" to ensure the issues of long-term financial viability is are addressed.

Roles and rules must be clearly established and enforced -- Bureau management must give close attention from the inception of a regional office as to what its role will be relative the bilateral USAIDs and their programs. It must ensure that those roles are clearly understood and accepted, provide for transparent and collegial resolution of conflicts and, once the rules of the game are in place, see that they are observed. In the case of ROCAP, while there was a continuing budget tension around the amount of aid going to the CARIs vs. the bilateral programs, the greatest conflict came when ROCAP tried to operate in a functional area where the bilateral were already engaged. So long as we worked exclusively with our regional partners we were largely ignored. But, trying to enter a new area, searching to find a new nitch for either ROCAP or the CARIs, inevitably brought conflict. The USAIDs fought ROCAP involvement in any aspect of Policy Dialogue, Democracy Strengthening, Population/Family Planning, and some, even efforts at joint coordination and support of the regional Natural Resources/Environment strategy. There are several lessons here:

-- Friction is inevitable but it can be significantly reduced if the Regional Office minds its own business by concentrating almost exclusively on multi-nation problems which can only be effectively solved through regional cooperation, eg: inter-regional and ex-regional trade, interface with regional entities, etc.

-- The Regional Office is more accepted if it's program and staff are seen as of direct benefit to the USAIDs eg: RCO and RLA personnel or pools of exceptionally well qualified technicians they can draw upon.

-- Finally, the regional program and modus operandi needs to be worked up in as collaborative manner as possible to broaden its ownership within AID. Once adopted, however, it should be made explicit by Bureau top management that all involved will be expected to pull together as colleagues to make it work. No regional program or director can succeed alone.

IV. Strategic, Programmatic and Operational Modalities

The Initiative for Southern Africa is intended to:

* encourage the region to continue with growth-oriented reforms

* assist efforts already underway to expand economic and political cooperation

* support the re-integration of South Africa's industrial, financial and technical resources into the region to stimulate mutually beneficial development

A Start-up Framework for the first two years of the ISA has been established based on extensive stakeholder discussions held in the region during 1994. Four major Strategic Objectives were agreed upon and 14 Program Outcomes identified under those objectives. The new Regional Center for Southern Africa (RCSA) has been given the lead in developing new or expanded strategies and programs under the Framework for:

-- Democracy and Governance

-- Small and Medium Business Development

-- Transport and Telecommunications

-- Agriculture and Natural Resource Development

AFR/W also has tasked RCSA with developing the longer-term Regional Program Strategic Plan for the ISA in FY 1996 and given it guidance on the operational approaches, or principles, which will govern implementation of the ISA.

The following suggestions, drawn from the ROCAP experience in support of the U.S. Assistance Strategy for Central America, 1985-94, may be useful to the AFR Bureau, RCSA and the bilateral USAIDs as they begin to implement the ISA.

Strategy Development

Discussion: The stakeholder teams made a major contribution in developing the Startup Framework. But, preparation of a full blown Regional Program Strategic Plan for the ISA, one that is truly "owned" by the Bureau and field missions (and Embassies), the stakeholders and understood by the other donors is a formidable task. It will require a major commitment of staff time and management attention both in the field and AFR/W. It is doubtful that the job can be done as scheduled.

The four Strategic Objectives identified in the Framework can easily absorb the full time attention of the RCSA staff for the next two years and provide a major learning experience for both RCSA and the bilateral USAIDs on operating a regional program. Several notes of caution may be in order:

-- The Framework has identified a number of things which could be addressed regionally but is less specific in defining what must be done regionally. The ROCAP experience argues that this is a critical distinction, one which warrants the most careful consideration by all the players. It is terribly important that RCSA and the USAIDs be straight-forward and up-front with each other on this issue and to seek AFR/W guidance where there is a disagreement. It is also going to be very important to RCSA's stakeholders that they understand the distinction in order to avoid raising false expectations and embarrassing both them and the USG.

-- The Framework also suggests "common institutional problems" and "economies of scale" as criteria. Again, the problems of the CARIs, described previously, argue for extreme caution in utilizing these subjective measures.

-- There will be a tendency for the bilateral missions to express interest in becoming involved in more things than they can really make a meaningful input to. "Oh yes, we definitely have an interest in (blank)." This tendency will be even stronger if the bilateral USAIDs and Embassies see RCSA as just one more claimant in a zero-based and declining budget scramble.

Judging from the Framework document, significantly more work will be required to develop a consensus among the stakeholders, USAIDs and the other donors and NGOs as to what the priorities are and which interventions are needed. For example:

-- The SAEDF should be able to find its own way with a minimum of guidance from RCSA. Developing an effective SME technical assistance capability in the region and finding a mechanism(s) for reaching the intermediate credit institutions serving SMEs, a task which falls to RCSA, will be easy. AID has been involved in both these areas for in CA for over twenty years with limited results. ROCAP did have considerable success, however, working directly with growers and exporters of non-traditional agricultural products. They prospered and the spread effect has been dramatic. Working regionally enabled our contractor to be very selective in choosing who to work with greatly increasing the ratio of success. This approach also helped the CA private sector identify the internal and external impediments to trade -- formulating <u>their</u> agenda for a policy dialogue with their respective governments. Incidentally, availability of credit was seldom a key constraint.

-- ROCAP's overt involvement in democratic strengthening was strongly resisted by the bilateral USAIDs and Embassies. Eventually two "niches" emerged. We worked with the regional institutions, principally the regional business school INCAE, and the umbrella private sector group, FEDEPRICAP to foster regional dialogue and research among the private sector, academic and political leaders on a wide range of public policy and democracy building issues. AID's Regional Housing and Urban Development Office was eventually moved to ROCAP which opened a broad range of possibilities for regional dialogue, training and analysis in the area of local governance. It should be assumed that the bilateral

Embassies will insist on some control over almost any regionally-funded democratic strengthening portfolio.

Recommendation: The timing of the submission of the full ISA Strategy should be reexamined at the up-coming Mission Director's Conference. The conference also could be used to make some of the internal threshold decisions on the respective roles RCSA and the USAIDs will play in getting the two-year Startup Framework up and running. A possible agenda could include:

-- Developing a Common Understanding of the Sectors; sharing views on past successes and failures, regional and national policy and institutional strengths/weakness, perceived stakeholder consensus for each of the four SOs.

-- Clarifying Roles and Information Needs; identifying what additional analysis is required,.agreeing on what RCSA can and should do, what realistically can be expected from the USAIDs and AFR/W.

-- Working Groups and Teams; establishing working groups of RCSA-USAID-AFR/W personnel which will participate in completing the needed analysis and follow-on project design

Consistent use of this collegial approach over the next year or two should make it easier to reach a common understanding on how the longer-term ISA will be organized and operated. Identifying those aspects which will be proceed independently of the bilateral USAIDs/Embassies and those which will be pursued jointly by RCSA and the USAIDs will, over time, define the nexus of the ISA and the US bilateral aid strategies.

Sectoral Planning/Programming

Discussion: The development of the four ISA sectoral strategies in accordance with the principles set forth in the Framework is a major undertaking. ROCAP utilized a very similar set of precepts during preparation of the Central American Regional Environmental and Natural Resources Strategy and its companion technical assistance project, RENARM. Building on five years of country-level studies, the experience of the bilateral USAIDs, the regional institutions and the international environmental NGOs it still took ROCAP almost two years and close to $1 million in PD&S and S&T funding to pull it all together. Perhaps a shorter and cheaper path can be found as RCSA develops the A/NR Strategy but the scope sketched out in the Startup Framework portends a major undertaking. For a more recent and perhaps more relevant African experience, the recently approved West Africa Regional Health project may be worth examination.

Recommendation: The Framework suggested that additional studies may be warranted in several other areas i.e; water, power, HIV/AIDS, and human resources development. These could add up to a serious distraction from the more immediate tasks at hand. RCSA should not be asked to shoulder this additional burden without additional staff. While IQCs can help, first-hand involvement by RCSA staff and management will be critical to learning the territory and networking with the stakeholders and other donors.

Operational Modalities

Discussion: It is unclear at this time whether a longer-term ISA strategy will specifically target regional economic integration. But it is clear that the ISA and its principle implementing arm, RCSA, will channel the bulk of it's funding toward "activities that are designed to promote regional cooperation and are regional in scope." ROCAP had a very similar mandate and divided its attention between supporting regional economic integration institutions as well as a number of institutions and programs which were regional in nature. The criteria used was very similar to that set forth in the Framework. There was a significant difference, however. CA enjoys a rich array of regional institutions and fora. Southern Africa's institutional foundation is not nearly so extensive. RCSA will have to work around the "institutional gap" relying initially on ad hoc fora to get the Southern Africans together to dialogue and agree on those "regional or sectoral problems amenable to (or preferably requiring) regional solutions."

Recommendation: RCSA should seek to use third parties wherever possible to organize and operate conferences, create fora for exchange of ideas among regional leaders, etc. This approach allows USAID involvement as a participant not as the organizer. Once the field of issues is more clearly identified RCSA can become more overt in pushing for a consensus on a plan of action.

Recommendation: That, at least initially RCSA, limit itself as much as possible to developing and funding only those activities which fall in the "must" category. This does not mean shortchanging support for regional dialogue, indeed, fairly generous support for studies and conferences, etc. relevant to the goal and sub-goals of the ISA (beyond the narrower focus of the Startup Framework) should be provided. During the start up of the Kissinger Plan/Reagan Initiative both LAC/W and the USAIDs had special funds designated to continuing the dialogue begun by the Kissinger Commissioners.

RCSA Portfolio and Staffing

Discussion: RCSA is just getting organized. The Director has been at post less than three months, and most of the staff have yet to arrive in Gaborone. Given the continuing drive to cut USAID overseas offices and staff it is almost certain that RCSA will never have enough USDH or USPSC ceiling to carry out the Framework program much less a broader, longer-term ISA strategy. Even granted the best of intentions the bilateral USAIDs will be hard pressed to attend to their own portfolios much less be of significant help to RCSA.

In addition to getting the initial Framework program moving, RCSA apparently will inherit the on-going SARP portfolio, the residual programs from the close-out missions and the administration of RCO and RLA personnel. RCSA's cup already runneth over.

Recommendation: If at all possible postpone or reduce the number of SARP and residual activities transferred to RCSA. Handle those activities out of AFR/W if necessary realigning staff to handle the activities in the interim. Another alternative might be passing responsibility to a nearby USAID which already has the requisite skills and staff.

Recommendation: Provide as much latitude as possible to the RCSA Director to experiment with different, perhaps flatter mission structures, organizing around issues or tasks and avoiding the usual hierarchical mission structure. Provide fairly liberal US and FSN PSC ceilings at least during the eighteen month start-up period. PD &S levels should be ample.

Recommendation: Looking to the future AFR/W should look to the overall USDH and PSC staffing in the region to provide as many complementary skills as possible.

Discussion: The concerted effort to broaden the dialogue among Southern Africans on issues of common concern should be paralleled by a conscious RCSA and bilateral USAIDs effort to bring more and more Southern Africans into our own internal processes and organization. One of the enduring strengths of the U.S. aid program in CA has been the number of top-notch Central Americans professional on our mission payrolls e.g; USAID Honduras usually had two or three minister level professionals on-board or on leave of absence within the Honduran Government at any given time.

Developing a broader base of professional Southern African staff for USAID means going out and hiring/contracting the best indigenous talent available and paying whatever the market requires. It means insisting that AID financed contractors and grantees do the same. Indeed, providing for some staff redundancy under institutional contracts is an excellent way of using program funds to build the base of qualified development expertise available to the region. Intra-mission sharing of Southern African staff should become a routine.

Finally, in the same vein the AFR Bureau, if it has not already done so, adopt a services procurement policy that gives preference to employment of Southern African individual and institutional contractors, NGOs, universities, consortium and regional institution.

Recommendation: AFR Bureau adopt a policy designed to broaden the employment/contracting of Southern Africans within the USAID program.

Program Authority

Discussion: Apart from the Controller function which was shared with USAID/Guatemala ROCAP had its own staff. The ROCAP Director enjoyed the same delegations as the bilateral missions. The program was administered independently and ROCAP alone was responsible for its execution. This is critical to an operational regional mission with its own stakeholders and NGO and other donor collaborators. Operational independence does not obviate the need for frequent and substantive consultations at both management and staff levels and the informal sharing of specialized talent. Strategic and sectoral documents prepared by the regional mission should be commented upon by the bilateral USAIDs before submission for AID/W review. Similarly USAID management and AFR/W should ensure that regional office has the opportunity to review and comment upon bilateral submissions that relate to ISA goals. In some respects ROCAP management was held to a higher standards of collegiality and cooperation than were the bilateral directors and that is perhaps inescapable. AA/AFR however, can even the playing field somewhat by making it clear to the bilateral management and staff that they will be expected to work together as USAID professionals.

Recommendation: RCSA should have an independent staff and full program delegations -- "stand alone" mission with regional responsibilities. RCSA and USAID collaboration should be an explicit performance evaluation criteria for senior managers in all the missions.

ANNEX I

Other Donor Coordination

As noted earlier for much of the Reagan-Bush era Central America was seen as largely an American Show by the international donor community. Repeated calls by Administration spokesmen for increased financing from the IFIs and our Western allies largely went unheeded. The CARIs, however, did continue to receive aid for agricultural and nutrition research, and once the peace process was in place the UNDP led an extensive, if ineffectual effort, to pull together a concerted technical assistance/food aid package in support of reconstruction and reconcilliation.

ROCAP did not play a major role in donor coordination, that was left to the Central Americans who had more than sufficient fora and standing institutions to do so. Indeed, in some respects, given the political overburden of the period, an overt USG effort probably would have been counter-productive. ROCAP was able, however, to influence aid to the region per se. We were regularly consulted by the donors due to our long-standing role in supporting regionalism and the CARIs and our knowledge of who was doing what at the regional level. The preparation of the Regional Environmental and Natural Resources Strategy and supporting ROCAP project was done in the closest colaboration with the USAIDs and the US and international environmental NGO community. We made a specia L effort to keep the bilateral donors, particulary the Canadians, Scandanavians and Germans, informed throughout the process. They remain close partners today.

This would appear to be an area in which the ROCAP experience is of limited relevance to the ISA. The US was <u>the</u> major donor by far in the region. Other donor involvement was minimal though much of the 1980s-90s thought that is now changing.

Donor coordination, and more importantly cooperation, will be much more critical to the success of a regional ISA strategy. The regional institutional infrastructure is much less developed, perhaps a mixed blessing. Some existing institutions, such as SADC will need to be reoriented, while others will have to be created. Much care, however, must be taken to avoid creating regional bureaucracies for todays needs only to see them become counterproductive or irrelevant ten or twenty years hence. Reports that the EC is considering a billion dollar package for SADC is indeed frightening. The US should use its limited influence to attempt to curb such extravagancies whenever possible.

Consideration might be given to AID financing of small grants to fund specific studies and ad hoc working groups as an alternative to jumping directly into long-term institution building. If new institutions are established, consideration should be given to including "sunset" provisions in their charters. We may also wish to take our own hard look at the SADC, SACU, PTA and other mechanisms for lessons learned and to avoid being drawn into intra-regional, inter-institutional disputes between the Southern Africans and the donors.

Finally, it must be remembered that the region's most valuable and scarcest resource are its leaders. The donors have enormous power to influence how their energies will be focused and utilized. A clear sense of purpose on USAID's part can help both the Southern Aficans and our partners in the donor community from dissipating their efforts.

ANNEX II

List of Individuals Interviewed

USAID Liaison for this report was Ms. Lynn A. Keeys, Country Development Officer, Initiative for Southern Africa. Personal or telephone interviews were held with the following individuals:

John F. Hicks, AA/AFR
Ted Morse, ex-Director SARP
Allison Herrick (retired) ex-Director SARP
Nate Fields, DAA/AFR
Carol Peasely, DAA/AFR
Valerie Dickson-Horton, Director RCSA
Wilbur Elliot, AFR/SA
James Govan, AFR/DP
Harvey Bronstein, AFR/ARTS
Paul Tuebner, AFR/WA
James Kelley, Consultant
Jeff Goodson, ANE/ORA
Peter Askin (retired) ex Office Director, LAC/CEN
Edward Marasciulo (retired) First Deputy Director ROCAP

I wish to thank all those interviewed for their time and Ms. Keeys and the staff of AFR/SA for their kind assistance. The report contents and recommendations, however, are the author's own.

ANNEX III

CONSULTANT OBSERVATIONS

Clearly, Southern Africa is entering a new era of great change and tremendous opportunity. Democracy is on the ascendancy and while much needs to be done to strengthen the institutions of governance and expand participation, the climate for doing so has never been more favorable. Democracy flourishes best when economic opportunity is also expanding. Baring a major political setback, there is every reason to believe that the South African economy will be the major driving force behind the region's growth for decades to come.

The Bureau should give serious consideration to giving the longer-term ISA a much tighter focus -- the economic integration of the southern and South African economies. This would entail an in depth-look at such matters as:

-- improved production for internal Southern African markets;

-- physical and human resource infrastructure requirements;

-- banking and investment laws and regulations;

-- tariff and non-tariff barriers to internal and ex-regional trade;

-- investment incentives;

-- vertical integration of production for new markets abroad.

The focus of the strategy would be on the private sector per se, with the SME as a sub-set, helping them to frame the economic policies, procedures and institutions they'll need to succeed. RCSA would take the lead in working with governments and public regional institutions to encourage them to dialogue with and respond appropriately to the needs of the private sector. Development of new regional institutions would be given second priority to strengthening existing organizations, avoiding the kind of dependency issues encountered in CA. Presumably the planned and on-going transport and telecommunication activities are consistent with an economic cooperation/integration focus.

Adoption of this approach would give additional focus to planned NR/E activities in support of cross-border trade in agriculture commodities and inputs, preservation of critical watersheds, eco-tourism, etc.

Democratic Strengthening at the regional level should be re-examined in terms of more actionable programs at the national level. Experience elsewhere, I believe, would warrant caution before trying to do much at the regional level given the wide disparities in the stages of democratic development at the national level.

Clearly, the more advanced countries of the region will see an earlier return under such an approach... but, they will anyway. In our pursuit of a regional growth with equity strategy we must not lose growth as the sine qua non of equity. For the lagging countries it may be appropriate, therefore, for the bilateral USAIDs and RCSA to develop joint activities targeting the kind of attitudes, skills and institutions the private sector in those countries will need to participate in the region's growth process in the future.

This, in my opinion is the optimal development strategy for the ISA and the one which would most easily lend itself to a phased consolidation of the bilateral programs under an umbrella regional strategy and program. It is a differentiated approach in that it has its own internal consistency and objectives which can be measured and evaluated independent of the bilateral programs. Equally important, because it is not a mirror image of what is going on bilaterally, it lessens the areas for conflict.